



ETHICS IN THE SPECIALTY COFFEE INDUSTRY

2003

By
Marty Milner

*(Based on a January 1995 Survey Conducted by the
Specialty Coffee Association of America)*

Moving Forward

Since this Survey was originally written in 1995 everyone involved in the Specialty Coffee Industry has seen growth and change of a global nature. There has been no shortage of ethical challenges within the business community and especially within our own industry-which is one of the top employers worldwide. The importance of ethics to the population has never been higher, striking resonance on the simplest grass roots level.

The purpose of the original Survey was to put some basic understanding behind the many factors that go into various business Codes of Ethics and International Codes of Conduct. It was hoped, by myself and the Board of Directors of the SCAA, that diversified leadership with respect to our industry would emerge to address any ongoing ethical concerns. Even though international ethical pressures continue to grow I feel that the people in our trade have kept pace with a changing and highly pressured business environment. We are an ethical trade and continue to adjust to the times. It is important to move forward and stay ahead of unethical trends always lurking where money or power is involved. It should be remembered that in 1995 75% of people who participated in the survey wanted a written Code of Ethics and 70% of employees looked directly to the owners for cues on ethical standards. I feel these percentages have probably risen due to the current climate. Many people in the rank and file are expecting owners to take a stand.

The Specialty Coffee Industry has been touched by many unforeseen sources of change. Plunging national currencies and economies, globalization of trade and commodities, genetic bioengineering and even international terrorism have all surfaced in just the past few years. Underpinning these recent pressures have been the constant doubt that possibly business and political leaders may be corrupt at the highest levels.

In spite of these many threats our industry has continued to grow and thrive, prosper and respond to a changing world. Most notably Starbucks and Green Mountain among others have recently been singled out for their ethical leadership. It is hoped that many people in our industry will find worthy examples of Codes of Ethics to refine and emulate on the Internet while they create and build their own. There are many organizations to examine as well one can be found at <http://www.iit.edu/departments/csep/PublicWWW/codes/> (Illinois Institute of Technology) a fully funded repository of codes of ethics and how to create your own. There are many companies with written Codes of Ethics that require all management to personally sign off annually verifying full compliance. Does yours?

Many of you will be reading this Survey for the first time. You should be aware that the results were arrived at using very sound statistical science and that the results were accurate to within 4%. The SCAA Board who fully support all efforts that might serve to improve ethical behavior in our industry funded this survey. I feel that much of what was written in 1995 is as relevant today as it was then. Change happens slowly but it was originally felt that it might be 10 years before many businesses and associations had matured sufficiently in outlook to produce a Code of their own.

The purpose of this forward and putting this survey back into wide circulation is to announce a jumping off date for many coffee companies' first Code of Ethics-January 2005. A Code of Ethics gives any serious company a long-term edge. Let us hope it grows from there.

If you don't have one yet there is no better time to start that right now.

Marty Milner (December 2003)

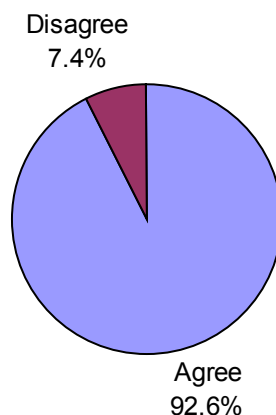
For people with a long-term commitment to profits in any specific industry, there is no more immediate, durable, or important topic than ethics. Everyone involved with the specialty coffee industry will be influenced in some way by the survey you are now reading. The survey reflects the opinions and attitudes of the many specialty coffee professionals who know each other and who are influenced by industry standards.

It is important to understand clearly that business ethics are neither wish lists for public relations experts nor philosophical discussions by business owners. Business ethics are the day-to-day codes used to exactly define and to precisely communicate the kind of business that you have or wish to become. Industry ethical standards guide individual businesses toward industry norms. This survey's results hope to clarify those norms and illuminate for you a path to improvement.

The recent survey conducted by the Specialty Coffee Association of America demonstrated conclusively that the members agreed upon three important concepts:

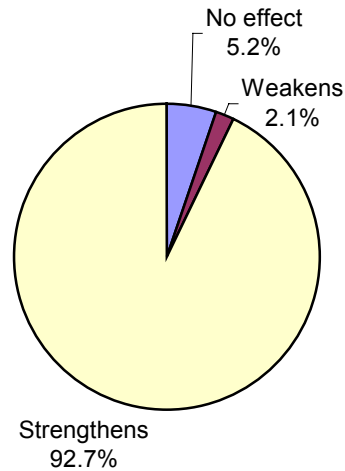
- More than 9 out of 10 members surveyed (92.6) agree that people in the specialty coffee industry should become more aware of ethical issues and devote resources to examining them;

People in the Industry Should Become More Aware of Ethical Issues & Devote Resources to Examining Them



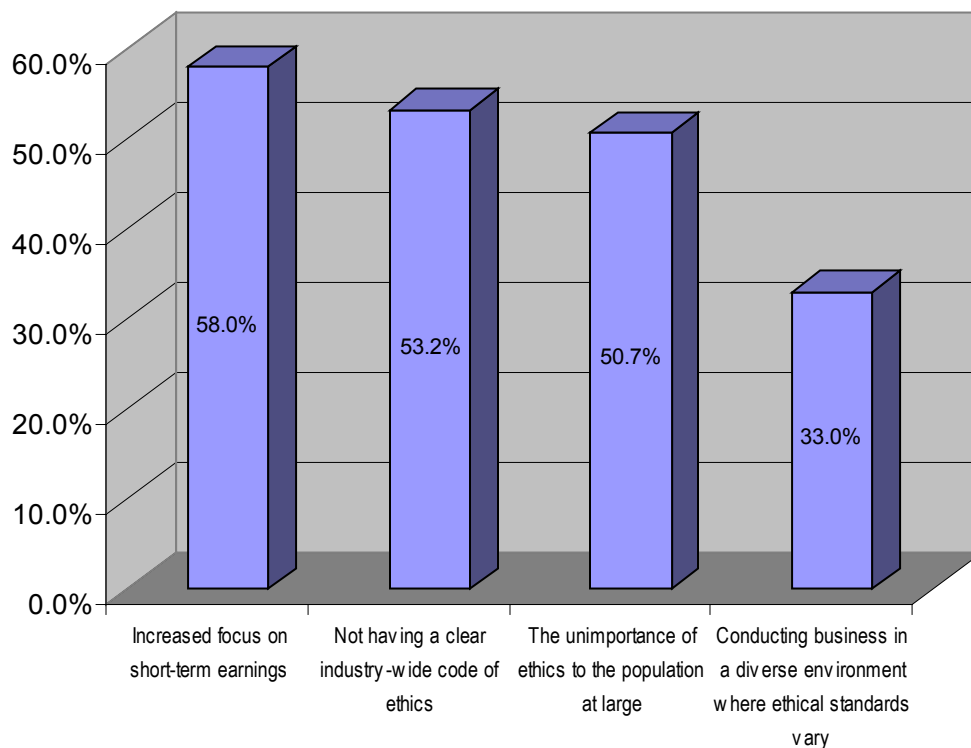
- A similar percentage (92.7) believe that maintaining high ethical standards in a specialty coffee business strengthens its competitive position;

Effects of Maintaining High Ethical Standards



- More than one-half (58 %) of the members responding feel that increased focus on short-term earnings is the greatest threat to industry ethics.

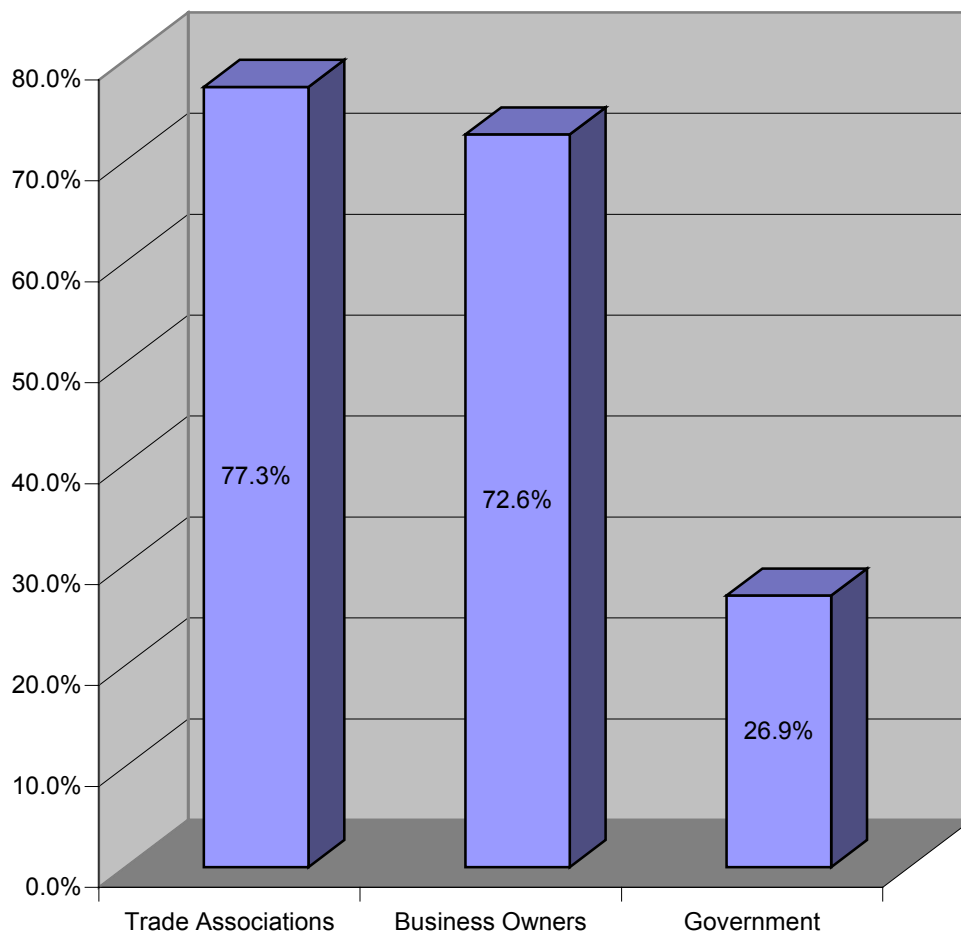
"Strong Threats" to Ethics



Ethical codes come from established but unwritten guidelines. Shared beliefs generate common attitudes; common attitudes give rise to predictable expectations. Expectations are the basis for codes of conduct. Codes of conduct guide ethical behavior and actions. These actions, upon analysis, create beliefs and attitudes, thereby completing the circle. Seldom is anything ever written about the mass of human behavior involved in this process.

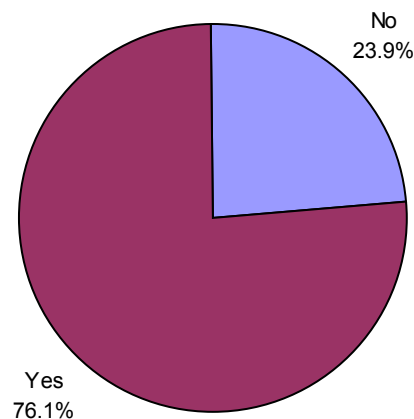
The SCAA survey found that most members feel that trade associations (77.3) and business owners (72.6) have been the major influences that have improved ethics in the specialty coffee trade. Far fewer (26.9) feel that government has been as effective.

Groups Which Have Been "Very" or "Somewhat Effective" in Improving Business Ethics



Perhaps one of the most interesting results of the survey was that more than 3 out of 4 SCAA members responding (76.1) indicated that they believe there should be a written code of ethics for the specialty coffee industry. Such a code, if adopted and followed, would allow the membership to have a vision statement upon which to base their marketing and purchasing activities.

Feeling That There Should Be a Written Business Code of Ethics



The perception in the specialty coffee industry that certain categories of businesses are more ethical than others affects the way people conduct business. Being aware of your category generally - but your business specifically - can help you maintain and improve a precious yet vulnerable business asset - your reputation. A good trade reputation should be the cornerstone of your business marketing. No one is more qualified to define what your company will tolerate or expect than you. Your marketing plan, if oriented with respect to ethics, can become the perfect vehicle for implementing and monitoring an ethical education program within your company.

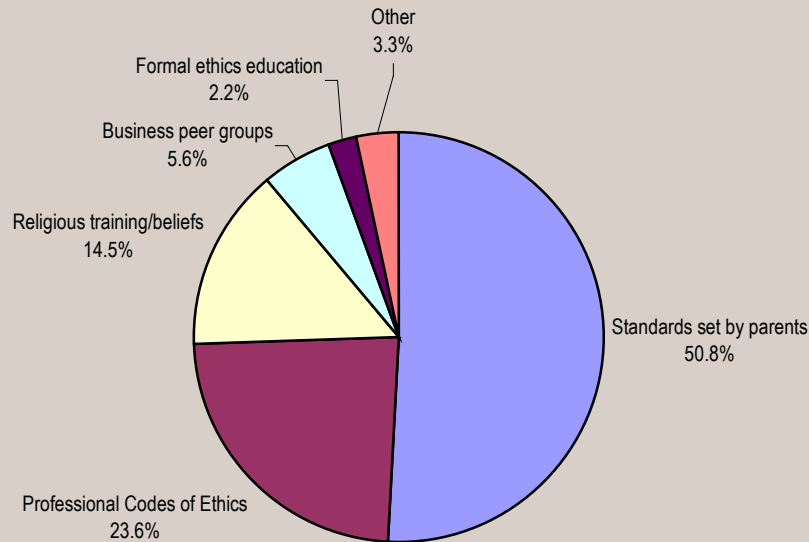
As part of the SCAA ethics survey, members were asked about their perception of ethics in the trade, according to what the respondents felt about specific categories in the channel of distribution of specialty coffees. The purpose of rating these groups was to inquire about the perceptions that industry members have about each category. The ranking serves to focus attention on those perceptions. Firms dealing with both green and roasted coffee (Roaster/Retailers (85.5) and Roasters (82.8) were most tightly held to ethical accountability and rated as "Very Ethical" or "Somewhat Ethical."

Overall, how ethical do you think each of the following is, as a group, within the specialty coffee industry?

	Very Ethical	Somewhat Ethical	Not Very Ethical	Not At All Ethical	Total	Base
Growers/Exporters	8.7%	65.2%	23.3%	2.8%	100.0%	459
Importers/Green Brokers	12.6%	64.1%	21.2%	2.1%	100.0%	467
Roasters	15.4%	67.4%	16.0%	1.2%	100.0%	487
Roaster/Retailer	18.6%	66.9%	13.7%	0.8%	100.0%	489
Retailers	13.6%	64.6%	19.2%	2.6%	100.0%	494

The purpose of the survey was not to define right and wrong or to dictate ethical precepts. It was intended to help individuals and businesses define - for themselves - where they stand in relation to others about ethical attitudes in the coffee business. If you look at the list of those growers/exporters, importers/green brokers, roasters, roaster/retailers, and retailers that have been in existence the longest, you will see that their success has been tied to ethical behavior within a business community for generations. You will also see that their reputations are soundly grounded in well-considered ethical behavior. Frequently, many of these firms have been or currently are owned by a single family. SCAA survey shows that for three fourths of the membership, ethical standards are influenced by family members or professional codes.

Single Most Influential Factor on Own Ethical Practices

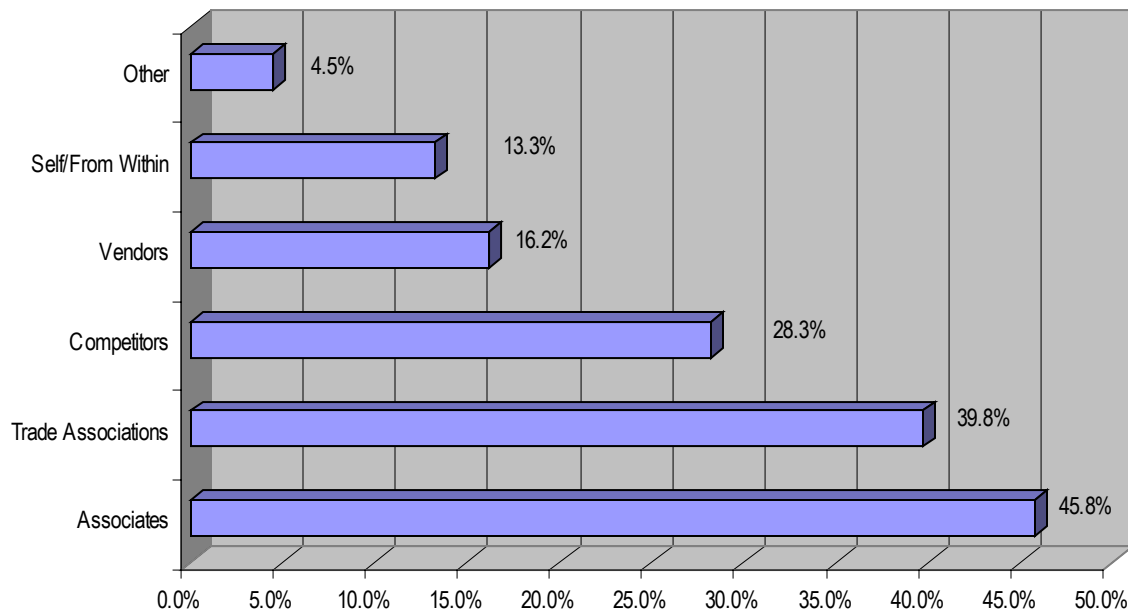


Many people new to the trade frequently acquire their ethics from an experiential base. In many cases they have no industry background or connections. They might make a mistake and run out of a product and substitute another, sending it out mislabeled. If they are caught, they might replace it while denying their culpability. In the future the offender may do one of three things:

- 1) repeat the same behavior, unable to cross back into the realm of ethical behavior;
- 2) deal with the situation on a case by case basis, allocating only enough resources to deal with immediate problems;
- 3) allow and prepare for the same and other events so that their professional reputation will never be call into question.

The ethical choices made by people new to the specialty coffee industry are greatly influenced by the trade itself. Almost half (45.8) look to associates in the trade for cues on ethical behavior. Another sizable number (39.8) key on trade associations. This means that SCAA members can influence and are influenced by each other. Recognition of this factor is important for the growth of both our industry and our association.

Where Business Owners Look for Clues On Ethical Standards



It is also important to note that employees look first to the actual owner for cues on ethical leadership. If the owner isn't there, then the manager or supervisor is the primary source of leadership. Do not expect employees to adhere to high ethical standards if the owner does not practice the same level of ethical behavior.

Where do EMPLOYEES Look for Cues? on Ethical Standards?

Business owner	71.3 %
Managers or Supervisors	51.5
Associates at work	17.3
Trade associations	3.3
Other	4.4
Base: 520	

In the specialty coffee industry, there are a number of situations, which can be assigned a rank and value in terms of potential to damage the ethical base of the industry. The following table is a break out of concrete ethical situations and their ranking in priority by SCAA members. You can see that people in our industry are first concerned with consumer issues, then business and competitive factors, and lastly the broader and more long-term issues of the environment and people living in third world coffee producing countries.

***Average Rating Given to Each Situation
(where 1 = no damage and 10 = extremely damaging)
Ranked in Order from Most to Least Damaging***

Selling products deliberately mislabeled	9.62
Selling products that are short weight	9.10
Applying origin labels to blends when less than half is from the designated origin	8.62
Spreading rumors about the quality of a competitor's product	8.56
Producing inconsistent products while ignoring cupping, roasting, color, and blending standards	8.56
Allowing short-term profits to become more important than product quality	8.46
Failing to fulfill a coffee contract due to an unfavorable market change	8.39
Overstating product yields to give consumers an inflated sense of product value	8.36
Roasting beans with no formal training	7.82
Fixing prices with competitors	7.24
Purchasing green beans from sources that use destructive agricultural practices, pesticides, or herbicides	6.94
Operating at a loss to gain market share	6.66
Purchasing products without regard to their effect upon local environments	6.64

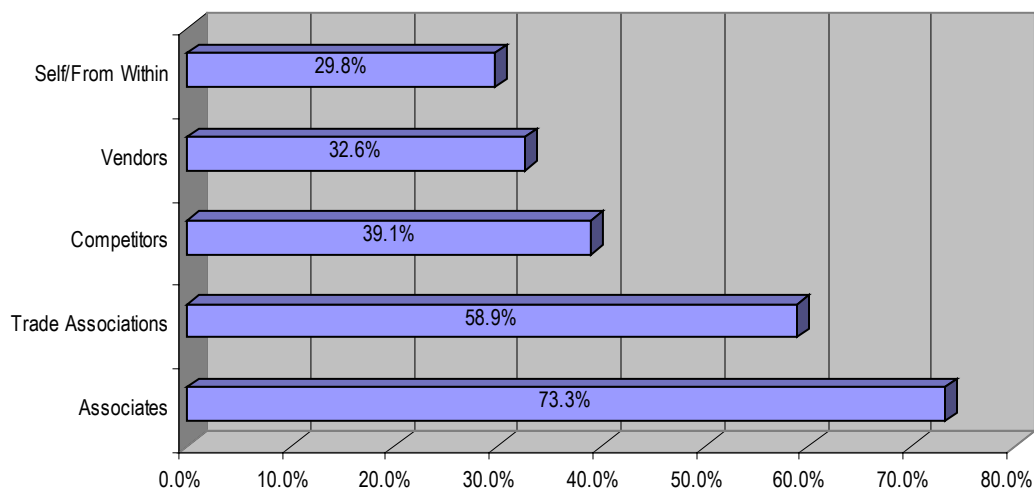
This ranking is in terms of relative values. It is useful as a gauge to determine where your values are in respect to others in the specialty coffee trade. It is up to everyone to assess where their own priorities might lay. Each of these topics is a long, heated and important discussion. However, it does not take a blind leap of faith to realize that a focus on long-term issues will build sustaining relationships and continuing growth.

The long-term value of SCAA's ethics survey is to gain more aspirants to the course of high ethical standards. This will make the specialty coffee trade stronger. In order to understand the essence of this concept, a number of misperceptions concerning ethics need to be addressed. The first misperception is that there is a conflict between ethics and profit. Over even a short period of time, businesses adhering to professional codes of ethics usually do better than businesses that do not. Frequently, unethical businesses go right out of business. A second misperception is that businesses people are ruthless. Frequently the most competitive business people are also the most ethical. Winners like to play on a level playing field. The third misperception is that ethical principles do not play a major role in the marketing plan. In numerous cases an ethical principle

is the guiding foundation of a successful advertising campaign. Good ethics is good marketing, which also makes for a stronger bottom line over the long term.

Of course it is important for a business to have a commitment to improving ethical standards. It is pointless to have a policy and a standard if you do not have people who believe, passionately in the ethical principles behind them. The most effective way is to clearly explain ethical expectations and scenarios to workers and managers. Most workers in our industry look for cues on ethical standards to the owner of the business. What you choose as an ethical curriculum with which to educate them is up to you as owner of the business and as a role model for your employees. Your own view will have been shaped by many factors.

"Very Important" Factors in Shaping Overall View of Business Ethics



The world of ethical business issues is much broader than can be discussed in this analysis. But it is important to point out that change is afoot in the specialty coffee industry, and if you have a role to play it should be one that fits these changing trends by either providing individual leadership or supporting and encouraging trade associations to devote resources to these issues. You may ask, "Why bother." Instead, ask yourself, "What if:"

- 1) your employee inadvertently mixes up three large bins before a major shipment to a key customer, and then has to decide whether or not to report the error?; or
- 2) the local news carries a story of coffee beans that have high levels of pesticides that are carcinogenic, and then your store manager is given a surprise live interview on TV - what does your manager do or say?; or
- 3) your store is leafleted by people claiming that your coffee beans are picked by people earning \$2.00 a day causing your sales to plummet, and then you have to decide on whether or not to continue selling the coffee in question?

If you have a policy, program, or training in place, none of these or other situations will threaten the life of your business, or other similar businesses, in the specialty coffee industry. Quite to the contrary, if you demonstrate to the public that you have a strong ethical response team in place and that you will defend the quality and integrity of the way you do business, a small problem can become a major marketing plus.

When first starting out, most businesses have a business and marketing plan. Many of these plans rapidly get put on a shelf and never looked at again. Only in extremely negative reactive circumstances will the ownership and management of a business reexamine these crucial blueprints for success. If you get nothing else from this survey but the idea that a marketing plan should include ethical underpinnings and is a responsive and pro-active tool for helping your business to succeed, then this survey will have been a success.

In the business world there is a line that divides a profession from a trade. That line is a professional code of ethics. The crossover between is a code of conduct. One way to increase your professionalism within the specialty coffee industry, and therefore both grow your business and increase your customer base, is to adhere to a consistent code of ethics or to adopt a written code of conduct. The code that you elect to follow can be a general one that you get from a professional trade organization; it can be a guideline from a governmental organization; or it can be one specifically that you create for your own company.

Any code of conduct will provide a stronger industry for new members to join. It will develop loyalty with long-term customers and provide an arena for leadership, direction, and prosperity. Without one, any aspiring business is vulnerable. This concept of a cross-linkage of mutual benefits creates common areas of related ethical issues involving marketing, public relations, government regulations, environmental concerns, human rights, and most important, profits. If your company is not in the forefront of these issues, then it is missing a valuable opportunity to gain market share. Professionally and personally, you are missing an opportunity to improve the world.

Logically, many of the same ethical business questions and conclusions are the product of the parallel development and maturity of a corporation, of an industry, and of a nation. Successful profit driven leaders, by imitation or invention, usually replicate in parallel behavior those standards of ethics already existing in the world. High ethics are good business.

Consider fish, diamonds, and live plants. These industries all rely upon the word of the buyer and the seller that values purchased are in fact received. Many deals, involving livelihoods and reputations, are consummated over the phone from great distances and are based entirely upon the ethical bound between buyer and seller. In many cases the labor used to provide these commodities is marginal and poorly paid. Each company must ask questions. What is my obligation? Can I share my profits to improve conditions for people living in poverty? What is an appropriate action or code of conduct? In these industries as well as many multi-national corporations, the same ethical culture exists. The answers are common, and so it is with coffee. It makes sense that the same principles would apply to the specialty industry.

Recently the federal government released a draft of "Model Business Principles." (See Appendix II) These guidelines address voluntary codes of conduct. They include the issues of

health, safety, fair employment practices, environmental practices, compliance with the U.S. laws concerning fair business practices, and maintenance of a corporate culture of good international citizenship. We are linked to these codes already.

Because we rely upon a commodity produced in less developed countries, we are associated with supporting economic and political situations that are viewed as repressive and exploitive. As both ethical business people and human beings, we can help to change this situation. This will benefit everyone concerned. How these changes occur will depend on us.

It is important to understand that motivation behind all ethical activity cannot effectively come into play unless it comes from people who are passionate, focused, and genuine in their approach to improving ethical standards. This is one of the guiding principles behind Deming management, as well as many other business philosophies. The instructions must come from and be practiced by people at the top.

Industry leaders that operate an ethical business attract and hold financially qualified, educated, high-end customers. The best employees want to work for these companies. These firms' positions within the market place as well as in the trade are secure. Their efforts build credibility of the trade in the public's eye. It enhances the individual owner's reputation within the civic community, and it keeps in check those issues that threaten all businesses. These are all sound business reasons for the specialty coffee industry to examine codes of conduct and possibly implement a written code of ethics.

In closing, it is critical to recognize the importance of leadership. What is required for a business to succeed at the highest level is for that business to be perceived unequivocally as a leader in the field. The only way long-term leadership can persevere is by having its operations governed by the highest code of ethics that can be applied consistently over time.

Appendix I

Survey Methodology

The figures in this survey were tabulated by Research USA, Inc. for the Specialty Coffee Association of America, under the direction of Ted Lingle, Executive Director. The whole project was approved, funded, and supported by the SCAA Board of Directors. The survey and its analysis were designed and supervised by Marty Milner, a business consultant at Cafe Cat (www.cafecat.com) located in Snellville, Georgia.

SCAA randomly mailed the survey questionnaire to 865 SCAA members in late January 1995. This survey population represented approximately one half of the total SCAA membership located in the United States and twenty foreign countries. The number of questionnaires returned was 527 for a total return of 60.9. The results are projectable within a range of plus or minus 4.4 (with 95 confidence).

This is a statistically significant return, which is high above most return rates for similar surveys. This topic is obviously very important to the people who were surveyed. This survey accurately reflects the views of the majority of people in the specialty coffee industry. In general, caution about applying specific percentages to particular individuals or companies is advised.

Of the firms who responded, their professional profiles were:

- 87.9 in the Retailer, Roaster/Retailer, or Roaster membership category;
- on average, these firms have been SCAA members for 3.6 years;
- on average, these firms have been selling specialty coffees for 7.3 years;
- 36.0 of these firms employ 1 - 5 people;
- the median specialty coffee sales for these firms is \$214,000

The philosophy and framework behind this study is based on the published work of Amy Levin of Touché Ross, John Rawls of Harvard University, and the Business Roundtable of New York. Marty Milner had conducted a similar survey for the nursery industry, which was published in *American Nurseryman*, a leading industry trade journal. These efforts and others are gratefully acknowledged. Many companies and organizations provided information and guidance during the course of this survey and upon its completion. A complete copy of this survey is available from SCAA Headquarters at a nominal cost.

Appendix II

Model Business Principles

(Draft of Clinton Administration Proposal of March 1995)

Recognizing the positive role of U.S. business in upholding and promoting adherence to Universal standards of human rights, the Administration encourages all businesses to adopt and implement voluntary codes of conduct for doing business around the world that cover at least the following rules:

- 1. Provision of a safe and healthy workplace.*
- 2. Fair employment practices, including avoidance of child and forced labor and avoidance of discrimination based on race, gender, national origin or religious beliefs; and respect for the right of association and the right to organize and bargain collectively.*
- 3. Responsible environmental protection and environmental practices.*
- 4. Compliance with U.S. and local laws promoting good business practices, including laws prohibiting illicit payments and ensuring fair competition.*
- 5. Maintenance, through leadership at all levels, of corporate culture that respects free expression consistent with legitimate business concerns, and does not condone political coercion in the workplace; that encourages good corporate citizenship and makes a positive contribution to the communities in which the company operates; and where ethical conduct is recognized, valued and exemplified by all employees.*

In adopting voluntary codes of conduct that reflect principles, U.S. companies should serve as models, encouraging similar behavior by their partners, suppliers, and subcontractors.

Adoption of codes of conduct reflecting these principles is voluntary. Companies are encouraged to develop their own codes of conduct appropriate to their particular circumstances. Many companies already apply statements of codes that incorporate these principles. Companies should find appropriate means to inform their shareholders and the public of actions undertaken in connection with these principles. Nothing in the principles is intended to require a company to act in violation of host country or U.S. law. This statement of principles is not intended for legislation.